Economics (BMEGT30M210, MS06) **21 October 2019**

Easy Practice Exercises for the First Midterm Exam

A. Multiple choice questions

Instructions: Please fill in the table! Each question in section A is worth 2 points each. Choose the one alternative that best completes the statements or answers the question! (If there is seemingly more than one correct answer – the answer should be d or e.)

A/1	A/2	A/3	A/4	A/5	A/6	A/7	A/8	A/9	A/10	A/11	A/12	A/13	A/14	A/15

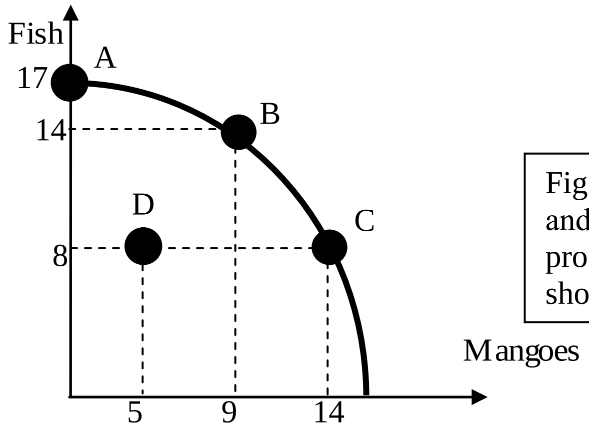
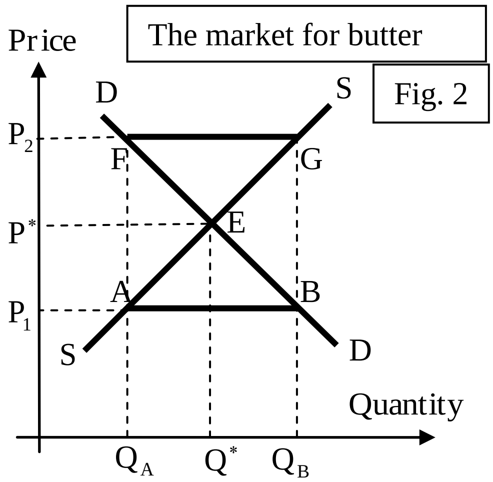


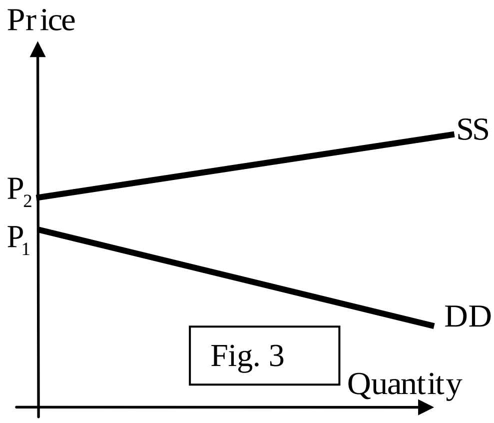
Fig 1. A jungle tribe catches fish and gathers mangoes. The tribe's production possibility frontier is shown in the figure to the left.

1. Suppose the economy is at point A, with 17 fish and 0 mangoes. What is the opportunity cost of gathering the first 9 mangoes?
   a.) 8 fish.
   b.) 14 fish.
   c.) 17 fish.
   d.) 3 fish.
   e.) None of the above.

2. Now suppose the economy is at point D. What is the opportunity cost of gathering 9 more mangoes?
   a.) 5 fish.
   b.) 8 fish.
   c.) 6 fish.
   d.) 14 fish.
   e.) None of the above.

3. Suppose that a new climbing technique is invented, making the harvesting of mangoes easier. After the technological change, which of the following combinations of goods might represent points of inefficient production?
   a.) A, B, C and D.
   b.) A and D.
   c.) A, B and D.
   d.) B, C and D.
   e.) None of the above.





4. Suppose that the government imposes a price *ceiling* (P_1) below P*, the equilibrium price in the market for butter (figure 2).
   a.) At the new market price, the quantity supplied will be Q_B.
   b.) AB shows the excess supply at the new market price.
   c.) The quantity traded will be reduced to Q_A.
   d.) The quantity traded might be maintained at Q* if the government adds its own demand to that of the private sector.
   e.) All of the above.

5. Now suppose that the government imposes a price *floor* (P_1) below P*, the equilibrium price in the market for butter (figure 2). Previously, the market was in equilibrium.
   a.) At the new market price, the quantity supplied will be Q_B.
   b.) AB shows the excess supply at the new market price.
   c.) The quantity traded will be reduced to Q_A.
   d.) The quantity traded can be maintained at Q* only if the government adds its own demand to that of the private sector.
   e.) None of the above.

6. In figure 3, SS and DD represent the supply and the demand curves in the market for refrigerators in Antarctica. Which of the following statements is/are true?
   a.) Even the highest price consumers will pay is lower than the minimum price producers require to produce any of this good.
   b.) Price floors are irrelevant in this market.
   c.) Price ceilings are irrelevant in this market.
   d.) Unless the government subsidizes the producers, this good will not be produced.
   e.) All of the above.

7. Which of the following items would *not* shift the SAFC schedule upwards?
   a.) A rise in wages if labor is a fixed factor.
   b.) A rise in demand.
   c.) A rise in the rental rate of machines if capital is a fixed factor.
   d.) A rise in fixed costs.
   e.) None of the above.

8. Which of the following statements about the short-run marginal cost curve is/are *not* true?
   a.) Marginal cost is unaffected by changes in factor prices.
   b.) Marginal cost will be rising under conditions of diminishing returns.
   c.) When average cost is falling, marginal cost will be below average cost.
   d.) All of the above are true.
   e.) None of the above is true.

9. Which of the following situations characterize(s) a monopoly?
   a.) Price equals marginal cost.
   b.) Marginal revenue equals marginal cost.
   c.) There are no barriers to entry.
   d.) Average revenue is equal to marginal revenue
   e.) All of the above.

10. Which of the following situations characterize(s) a perfectly competitive market?
   a.) Price equals marginal cost.
   b.) Marginal revenue equals marginal cost.
   c.) There are no barriers to entry.
   d.) Average revenue is equal to marginal revenue
   e.) All of the above.

11. In the short run …
   a.) a firm produces at a level of output that equates marginal revenue and marginal cost provided that at that level the price exceeds short-run average total cost.
   b.) a firm produces at a level of output that equates marginal revenue and marginal cost provided that at that level the price exceeds short-run average fixed cost.
   c.) a firm shuts down if at the level of output that equates MR and MC it cannot recoup at least the fixed costs.
   d.) a firm will close down if price if less than average revenue.
   e.) None of the above.

12. In the long run …
   a.) a firm never produces at a loss, it would always exit the industry if economic costs exceed total revenue.
   b.) a firm would always produce if they can equate marginal costs and the market price, even if it makes a loss.
   c.) a firm would always produce if they can equate marginal costs and the market revenue, even if it makes a loss.
   d.) a firm will close down if price if less than average revenue.
   e.) None of the above.

13. Which of the following statements are valid?
   a.) LAC is falling when LMC is less than LAC
   b.) LAC is rising when LMC is greater than LAC
   c.) LAC is at a minimum at the output level at which LAC and LMC cross.
   d.) All of the above are valid.
   e.) None of the above are valid.

14. Suppose that there is an increase in the wage rate of workers in a certain industry. The industry is serviced by a monopolist firm. What happens to the firm's costs, revenue and output?
    a.) The marginal cost (MC) curve will shift downwards and the profit-maximizing output increases.
    b.) The MC curve will shift upwards and the profit-maximizing output decreases.
    c.) The marginal revenue (MR) curve will shift downwards and the profit-maximizing output decreases.
    d.) The MR curve will shift upwards and the profit-maximizing output increases.
    e.) None of the above.

15. Suppose that there is a fall in market demand. The industry is serviced by a monopolist firm. What happens to the firm's costs, revenue and output?
    a.) The marginal cost (MC) curve will shift downwards and the profit-maximizing output increases.
    b.) The MC curve will shift upwards and the profit-maximizing output decreases.
    c.) The marginal revenue (MR) curve will shift downwards and the profit-maximizing output decreases.
    d.) The MR curve will shift upwards and the profit-maximizing output increases.
    e.) None of the above.

B. <u>True or false questions</u>

Instructions: Please decide if the following statements are true ('T') or false ('F'), and fill in the table! Each question in section B is worth 1 point each.

B/1	B/2	B/3	B/4	B/5	B/6	B/7	B/8	B/9	B/10

1. Firms maximize profits by selling as much output as they can.
2. When a firm's demand curve slopes down, marginal revenue will fall as output rises.
3. Any firm wanting to maximize profits will minimize cost for any given level of output.
4. A fall in marginal revenue will cause profits to be maximized at a higher output level.
5. Total revenue is maximized when marginal revenue is at a maximum.
6. Price is equal to marginal revenue for a firm under perfect competition.
7. An economy in which there is full employment is not producing on the production possibility frontier.
8. An expansion of an economy's capacity to produce would be reflected in an 'outwards' movement of the production possibility frontier.
9. A rise in the rental rate for machines would shift the average variable cost curve upwards if labor is the fixed factor.
10. Decreasing returns to scale often results in the emergence of natural monopolies.